

SURREBUTTAL TESTIMONY OF**LANE KOLLEN****ON BEHALF OF****THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF****DOCKET NO. 2019-224-E****DOCKET NO. 2019-225-E****IN RE: SOUTH CAROLINA ENERGY FREEDOM ACT (HOUSE BILL 3659)****PROCEEDING RELATED TO S.C. CODE ANN. SECTION 58-37-40 AND****INTEGRATED RESOURCE PLANS FOR DUKE ENERGY CAROLINAS, LLC****AND DUKE ENERGY PROGRESS, LLC****Q. STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

A. My name is Lane Kollen. I am a Vice President and a Principal of J. Kennedy and Associates, Inc. ("Kennedy and Associates"). My business address is 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. DID YOU PREVIOUSLY FILE TESTIMONY IN THIS PROCEEDING?

A. Yes, I filed Direct Testimony and one (1) exhibit on behalf of the South Carolina Office of Regulatory Staff ("ORS") on February 5, 2021 and Revised Direct Testimony and one (1) exhibit on March 4, 2021 in these proceedings. In my Direct Testimony, I describe my role in the ORS review of the Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP") (collectively, the "Companies") 2020 Integrated Resource Plans ("IRP") and the Kennedy and Associates Report ("Report"). I had primary responsibility for the Executive Summary and the sections in the Report on Resource

1 Planning, Economic Evaluation of Portfolios and Sensitivities, Risk Analysis, and
2 Customer Rate Impact.

3 **Q. DESCRIBE THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY.**

4 **A.** The purpose of my Surrebuttal Testimony is to respond to Companies' witness
5 Glen Snider's Rebuttal Testimony on post in-service capital additions for new resources,
6 risk analyses, and the customer rate impacts of the portfolios and sensitivities that were
7 evaluated by the Companies in their IRPs. ORS witnesses Sandonato, Hayet, and Baron
8 provide Surrebuttal Testimony in response to other issues addressed in the Companies'
9 rebuttal testimonies, including Mr. Snider's Rebuttal Testimony.

10 **Q. DO THE COMPANIES AGREE WITH ORS RECOMMENDATION 21, IN**
11 **WHICH ORS RECOMMENDS THAT THE COMPANIES INCLUDE CAPITAL**
12 **ADDITIONS ON NEW RESOURCES IN THIS PROCEEDING?**

13 **A.** Yes. Mr. Snider asserts in his Rebuttal Testimony that the capital additions on new
14 resources were included in the Companies' analyses and economic evaluations. However,
15 the Companies did not include the capital additions as separately identifiable fixed costs.
16 Instead, the Companies included the capital additions in the forecast major maintenance
17 outage expenses, which vary each year based on the forecast hours of operation and number
18 of startups. The Companies used an unusual methodology for modeling capital additions;
19 nevertheless, the expenses appear to be of sufficient magnitude that they could include
20 capital additions. ORS concludes that no further action is necessary in this proceeding, but
21 recommends the Companies separate out the capital addition costs in future IRP filings and
22 identify them as post in service capital additions instead of commingling them with

1 maintenance expenses for major maintenance outages. The Companies' methodology
2 should be addressed and evaluated through the stakeholder process as appropriate.

3 **Q. IN RECOMMENDATION 26, ORS RECOMMENDS THAT THE COMPANIES**
4 **PERFORM RISK ANALYSES OF THEIR PORTFOLIOS AND SENSITIVITIES.¹**
5 **DO THE COMPANIES AGREE TO INCORPORATE RISK ANALYSES IN**
6 **FUTURE IRPS IN RESPONSE TO THE ORS RECOMMENDATION?**

7 **A.** Yes. Mr. Snider agrees that minimax regret analyses is "a useful tool to help distill
8 economic results in a digestible and consumer-friendly summary." Mr. Snider indicates
9 that the Companies support the use of the ORS minimax regret methodologies, not the
10 CCEBA methodologies.²

11 **Q. WHY ARE THE ORS MINIMAX REGRET METHODOLOGIES**
12 **APPROPRIATE?**

13 **A.** The ORS methodologies are appropriate because they provide a more realistic and
14 accurate assessment of the risk among various portfolios and sensitivities. The ORS
15 methodologies allow the Commission to consider risk and optimize the selection of a
16 portfolio by minimizing the maximum regret, mean regret, and regret standard deviation.
17 Mr. Snider notes in his Rebuttal Testimony that "[T]he ORS [risk-adjusted] results, on a
18 combined system basis, result in the Base Planning Case without Carbon Policy being the
19 portfolio that minimized maximum regret, followed by the Base Planning Case with
20 Carbon Policy."³ The risk analyses methodologies should be addressed and further refined
21 through the stakeholder process as appropriate.

¹ I addressed this recommendation in my Direct Testimony, but it was not previously assigned a recommendation number. It is now Recommendation 26.

² Rebuttal Testimony of Glen Snider at 143.

³ *Id.*, 144.

Q. IN RECOMMENDATION 23, ORS RECOMMENDS THAT THE COMPANIES UTILIZE THE SAME ASSUMPTIONS FOR THE PRESENT VALUE OF REVENUE REQUIREMENTS (“PVRR”) ANALYSES AND THE CUSTOMER BILL IMPACTS. DO THE COMPANIES AGREE WITH THIS RECOMMENDATION?

A. No. Mr. Snider states that the differences are “appropriate” and provides a detailed description of the differences reflected in the Companies’ PVRR analyses and customer bill impact analyses. The Companies’ detailed description merely reiterates the differences noted by ORS in the Report; it does not justify the differences. Although the Companies disagree with the ORS recommendation, Mr. Snider states that the Companies “agree to collaborate with ORS before the next comprehensive IRP on refining and fine tuning this analysis for consistency with the rest of the IRP analysis where appropriate.”⁴

Q. DO YOU AGREE WITH THE COMPANIES THAT THE DIFFERENCES ARE APPROPRIATE?

A. No. The purpose of the customer bill impact analyses is to reflect the incremental rate effects of the portfolios and sensitivities in the IRPs. The incremental rate effects necessarily should be based on the same assumptions for the rate of return, depreciation expense, and income tax expense used for the incremental rate effects in the PVRR analyses. This is a matter of fundamental logic and consistency.

The Companies’ approach inappropriately relies on the most recent authorized rate of return for its existing resources, not the rate of return applicable to the incremental cost of capital additions on existing resources and the cost of new resources. Yet none of the

⁴ *Id.*, 146-147.

Companies' existing financing will be used to finance these incremental costs. The Companies' existing financing already is reflected in their existing rates and will have no effect on the incremental rate effects of the portfolios and sensitivities in the IRPs.

Similarly, the Companies' approach inappropriately relies on the approved depreciation rates for its existing resources, not the depreciation rates applicable to the capital additions on existing resources and new resources. The depreciation rates on existing resources include adjustments due to under or over recoveries of depreciation expense in prior years due to changes in plant costs and changes in numerous assumptions from one depreciation study to the next, none of which have any relevance to new incremental capital additions on existing resources or new resources. The existing depreciation rates and the resulting depreciation expense already are reflected in existing customer rates and will have no effect on the incremental rate effects of the portfolios and sensitivities in the IRPs.

Q. DO YOU AGREE WITH THE COMPANIES THAT THE CALCULATIONS OF THE CUSTOMER BILL IMPACTS SHOULD BE ADDRESSED IN THE STAKEHOLDER PROCESS BEFORE THE NEXT COMPREHENSIVE IRP?

A. Yes. However, I do not believe it is necessary to wait until the next comprehensive IRPs to use the same assumptions for the PVRR and customer bill impact analyses. I recommend the Companies do so in their next annual update IRPs.

Q. WILL YOU UPDATE YOUR SURREBUTTAL TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

1 **A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental
2 testimony should new information not previously provided by the Company, or other
3 sources, becomes available.

4 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

5 **A.** Yes.